

## ENVIRONMENTAL IMPROVEMENT FUND

Budget Summary						FTE Position Summary
Fund	2010-11 Adjusted Base	Governor		2011-13 Change Over Base Year Doubled		Positions for the Environmental Improvement Fund program are provided under the Departments of Administration and Natural Resources.
		2011-12	2012-13	Amount	%	
GPR	\$47,374,800	\$15,874,100	\$39,286,000	- \$39,589,500	- 41.8%	
SEG	<u>9,000,000</u>	<u>8,000,000</u>	<u>8,000,000</u>	<u>- 2,000,000</u>	- 11.1	
TOTAL	\$56,374,800	\$23,874,100	\$47,286,000	- \$41,589,500	- 36.9%	
BR		\$362,400,000				

### Budget Change Items

#### 1. GENERAL AND REVENUE OBLIGATION BONDING AUTHORITY

BR	\$362,400,000
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**Governor:** Provide an increase in bonding authority of \$362.4 million for the environmental improvement fund, as shown in the following table. This includes \$9.4 million in general obligation and \$353 million in revenue obligation bonding authority. Revenue obligations are issued to provide financial assistance for municipal wastewater facility projects in the clean water fund program. State revenue bonds are retired primarily through repayments of program loans and issuance of general obligation bonds to pay for the state subsidy costs of low-interest loans in the clean water fund program. General obligation bonds are also issued to pay for the 20% state match to the federal capitalization grants for the clean water fund program and safe drinking water loan program.

#### Environmental Improvement Fund (EIF) Bonding Authority

	<u>Current</u>	<u>Bill</u>	<u>Total</u>
Clean water fund -- general obligation	\$777,043,200	\$0	\$777,043,200
Clean water fund -- revenue obligation	2,363,300,000	353,000,000	2,716,300,000
Safe drinking water -- general obligation	<u>45,400,000</u>	<u>9,400,000</u>	<u>54,800,000</u>
Total	\$3,185,743,200	\$362,400,000	\$3,548,143,200

The clean water fund program provides low-interest loans to municipalities for planning, designing, constructing, or replacing a wastewater treatment facility, or for nonpoint source pollution abatement or urban stormwater runoff control projects. The safe drinking water loan program provides financial assistance to municipalities for the planning, design, construction or modification of public water systems.

[Bill Sections: 781 and 2923]

## 2. PRESENT VALUE SUBSIDY LIMIT

**Governor:** Provide a "present value subsidy limit" totaling \$85.1 million for the environmental improvement fund as shown in the table. The subsidy limit represents the estimated state cost, in 2011 dollars, to provide 20 years of subsidy for the projects that would be funded in the 2011-13 biennium.

### EIF Present Value Subsidy Limit

	Authorized <u>2009-11</u>	Bill <u>2011-13</u>
Clean water fund program	\$134,900,000	\$54,400,000
Safe drinking water loan program	17,600,000	30,700,000
Land recycling loan program	<u>2,700,000</u>	<u>0</u>
Total	\$155,200,000	\$85,100,000

No present value subsidy limit is proposed for the land recycling loan program because all of the funds authorized for that program have been allocated. The land recycling loan program may provide financial assistance to certain local governments for the investigation and remediation of contaminated (brownfields) properties and for a loan to the dry cleaner environmental response fund.

[Bill Sections: 2917, 2918, 2921, and 2922]

## 3. DEBT SERVICE REESTIMATE

GPR	- \$16,541,700
SEG	<u>- 2,000,000</u>
Total	- \$18,541,700

**Governor:** Decrease funding by \$7,518,000 GPR and \$1,000,000 SEG in 2011-12 and \$9,023,700 GPR and \$1,000,000 SEG in 2012-13 to reflect the current law reestimate of GPR debt service costs on state general obligation bonds and commercial paper debt issued for the environmental improvement fund and a decrease in the use of SEG loan repayments for debt service. This would include: (a) -\$8,308,700 GPR and -\$1,000,000 SEG in 2011-12 and -\$10,082,500 GPR and -\$1,000,000 SEG in 2012-13 for the clean water fund program; and (b) \$790,700 GPR in 2011-12 and \$1,058,800 GPR in 2012-13 for the safe drinking water loan program.

In addition to GPR debt service payments, clean water fund program general obligation bond debt service is also paid in each year from a SEG sum certain appropriation that receives a portion of loan repayments from municipalities from loans that were originally provided from the proceeds of general obligation bonds. The land recycling loan program is funded through loan repayments of clean water fund loans made with the proceeds of federal grants to the clean water fund and does not have a separate debt service cost.

Debt service costs include the conversion of \$1,000,000 annually from environmental improvement fund SEG to GPR to decrease, from \$9 million to \$8 million, to reflect the approximate amount of clean water fund program general obligation bond debt service paid by 50% (the maximum allowed by federal law) of the loan interest repayments received from municipalities from loans that were originally provided from the proceeds of general obligation bonds issued to provide the 20% state match to the federal grants. Under the bill, short-term GPR debt service costs would increase by \$1 million annually, and the long-term effect would be to decrease the need for future issuance of general obligation bonds and revenue bonds because loan repayments would be used for clean water fund program loans instead of for debt service.

#### 4. GPR DEBT RESTRUCTURING -- DEBT SERVICE

GPR	- \$23,047,800
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**Governor:** Decrease funding by \$23,982,700 in 2011-12 and increase funding by \$934,900 in 2012-13 to reflect estimated GPR debt service costs associated with the proposed restructuring of general obligation bond and commercial paper GPR principal amounts that would otherwise be paid off in 2011-12. This would include: (a) -\$21,684,700 in 2011-12 and \$830,200 in 2012-13 for the clean water fund program; and (b) -2,298,000 in 2011-12 and \$104,700 in 2012-13 for the safe drinking water loan program. Under the bill, the state would issue refunding bonds to restructure a portion of its outstanding general obligation GPR principal debt and would rollover the principal due on its outstanding commercial paper in 2011-12. The increase in debt service for 2012-13 is associated with the initial interest amount due on the additional debt issued to replace the restructured 2011-12 principal amounts. (See "Building Commission" for additional information regarding this provision.)

#### 5. REDUCE CLEAN WATER FUND INTEREST RATE SUBSIDY AND HARDSHIP ASSISTANCE

**Governor:** Reduce the subsidy for most clean water fund program projects to provide an interest rate of 80% of the market rate. Loan interest rates paid by municipalities would increase from the current 60%, 65% or 70% of market rate, depending on the project type. The project types that would receive the reduced state subsidy include: (a) increase the interest rate from 60% to 80% of market rate, for compliance maintenance projects, which are projects to prevent a significant violation of an effluent limitation by a municipal sewage treatment facility; (b) increase the interest rate from 60% to 80% of market rate, for new or changed limits projects, which are projects to achieve compliance with an effluent limitation established after May 17, 1988, if the project is for a municipality that is not a violator of the specific limit that is changing; (c) increase the interest rate from 65% to 80% of market rate, for projects to abate

nonpoint source pollution and to control urban storm water runoff; and (d) increase the interest rate from 70% to 80% of market rate, for projects to provide treatment facilities and sewers for unsewered areas. The market interest rate changes when the state issues bonds to finance projects under the program. The March, 2011, interest rate is 4.0%. The following table shows the effect of current law and the bill with a market interest rate of 4.0%. The change in the interest rate would apply to projects for which subsidy is allocated from the present value subsidy limit approved for the 2011-13 biennium and subsequent biennia. Projects allocated subsidy from the present value subsidy limit approved for the 2009-11 biennium would be funded with the current law interest rate.

### **Clean Water Fund Program Loan Interest Rates by Project Type**

<u>Project Category</u>	<u>Current Law Percent of Market Rate</u>	<u>Current Law Interest Rate</u>	<u>Bill Percent of Market Rate</u>	<u>Bill Interest Rate</u>
Compliance maintenance/ New and changed limits	60%	2.4%	80%	3.2%
Storm water/nonpoint	65	2.6	80	3.2
Unsewered	70	2.8	80	3.2
Market Rate	100	4.0	100	4.0

Reduce the amount of present value subsidy allocated to financial hardship assistance from 15% to 5% of the total present value subsidy limit. Under the bill, up to \$2.72 million (5%) of the proposed \$54.4 million in clean water fund program present value subsidy limit would be available for hardship assistance. In the 2009-11 biennium, \$20.2 million (15%) of the authorized \$134.9 million in present value subsidy limit is available for hardship assistance. The program provides financial hardship assistance for projects where the municipality's median household income is 80% or less (\$44,699 in 2008-09 through 2010-11) of the statewide median household income, and the estimated annual residential wastewater treatment charges would exceed 2% of the median household income in the municipality without hardship assistance. Assistance is provided to reduce residential wastewater user charges to 2% of the median household income, or as close to 2% as is possible with the maximum assistance. The maximum financial hardship assistance is a grant for 70% of project costs, with the remaining costs provided through a 0% interest rate loan. Financial hardship assistance is provided first in the form of a low-interest rate loan. Then, if user charges still exceed 2% of the median household income of the municipality, the program adds a grant. The bill would not affect eligibility requirements, the current subsidized interest rate, or the amount provided as a grant or loan for individual hardship financial assistance projects.

Based on the September, 2010, biennial finance plan submitted by DNR and DOA (which reflected program costs based on the current 60%, 65%, or 70% of market interest rate, and the reduction of present value subsidy limit allocated for financial hardship projects), the reduction in the state subsidy would reflect a reduction of \$39.7 million in the need for general obligation bonding authority, and a reduction of \$55.7 million in the need for present value subsidy limit.

While the state's costs of providing 20 years of subsidy for projects funded in the 2011-13 biennium would be expected to decrease by approximately \$55.7 million, costs to municipal borrowers would increase by the same amount.

[Bill Sections: 2913 thru 2916, 2919, and 2920]

## **6. SAFE DRINKING WATER LIMIT ON ASSISTANCE PER MUNICIPALITY**

**Governor:** Provide that, in any biennium, any one municipality may not receive more than 25% of the funds that DOA projects will be available for the safe drinking water loan program for that biennium. Currently, no municipality may receive more than 25% of the present value subsidy limit statutorily established in that biennium for the safe drinking water loan program.

[Bill Section: 2925]